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December 13, 2005

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, 2<sup>nd</sup> floor  
Boston, MA 02202

Re: Bay State Gas Company, D.T.E. 05-27

Dear Ms. Cottrell:

Enclosed please find the Motion for Reconsideration of Bay State Gas Company.

Very truly yours,

Robert L. Dewees, Jr.

RLD/tlm  
Enclosure

cc: Caroline O'Brien Bulger, Esq., Hearing Officer  
A. John Sullivan (7 copies)  
Andreas Thanos, Assistant Director, Gas Division  
Alexander Cochis, Assistant Attorney General (4 copies)  
Paul R. Osborne, Assistant Director, Rates & Revenue Requirements Division  
Andrew O. Kaplan, General Counsel  
Service List

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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BAY STATE GAS COMPANY  
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**D.T.E. 05-27**

**MOTION FOR RECONSIDERATION  
OF BAY STATE GAS COMPANY**

**I. INTRODUCTION**

On November 30, 2005, the Department of Telecommunications and Energy (“Department”) issued its order approving new rates for Bay State Gas Company (“Bay State” or the “Company”). Bay State Gas Company, D.T.E. 05-27 (November 30, 2005) (“Order”). Pursuant to 220 C.M.R. 1.11, Bay State requests reconsideration of certain portions of the Department’s Order. In the alternative, the Department may determine that the Company’s requests require recalculation or clarification of the Order.

Bay State seeks reconsideration of the Department’s Order (1) with regard to operating revenues, specifically, special contract revenues and Energy Products and Services (“EP&S”) revenues; (2) with regard to operating expenses, specifically, the Metscan amortization, the low income discount rate shortfall recovery, property and liability insurance, the Westborough office building lease, advertising and promotional expenses related to the conversion of electric heat customers to gas heat and rate case expense; (3) with regard to rate base, the bad debt in cash working capital and customer information systems adjustments; and (4) with regard to Bay State’s performance based regulation (“PBR”) plan, its earnings sharing mechanism.

The cumulative effect of these adjustments is a decrease of \$253,286 in the base rate revenue deficiency as compared to the November 30, 2005 order. See, Attachment Bay State -1.

## II. STANDARD OF REVIEW

A party may file a motion for reconsideration within twenty (20) days of service of a final Department Order. 220 C.M.R. § 1.11(10). Reconsideration of previously decided issues is granted when extraordinary circumstances dictate that the Department take a fresh look at the record for the express purpose of substantively modifying a decision reached after review and deliberation. North Attleboro Gas Company, D.P.U. 94-130-B at 2 (1995); Boston Edison Company, D.P.U. 90-270-A at 2-3 (1991); Western Massachusetts Electric Company, D.P.U. 558-A at 2 (1987).

A motion for reconsideration should bring to light previously unknown or undisclosed facts that would have a significant impact upon the decision already rendered. It should not attempt to reargue issues considered and decided in the main case. Commonwealth Electric Company, D.P.U. 92-3C-1A at 3-6 (1995); Boston Edison Company, D.P.U. 90-270-A at 3 (1991); Boston Edison Company, D.P.U. 1350-A at 4 (1983). Alternatively, a motion for reconsideration may be based on an argument that the Department's treatment of an issue was the result of mistake or inadvertence. Massachusetts Electric Company, D.P.U. 90-261-B at 7 (1991); New England Telephone and Telegraph Company, D.P.U. 86-33-J at 2 (1989); Boston Edison Company, D.P.U. 1350-A at 5 (1983).

The Department may determine sua sponte that the issues presented by Bay State in this Motion should be more appropriately considered under its standards for clarification or

recalculation. A request for clarification of a previously issued order may be granted when the order is silent as to the disposition of a specific issue requiring determination in the order, or when the order contains language that is sufficiently ambiguous to leave doubt as to its meaning. Boston Edison Company, D.P.U. 92-1A-B at 4 (1993); Whitinsville Water Company, D.P.U. 89-67-A at 1-2 (1989). Clarification does not involve examining the record anew in order to substantively modify the Department's decision. Boston Edison Company, D.P.U. 90-335-A at 3 (1992), citing Fitchburg Gas & Electric Light Company, D.P.U. 18296/18297 at 2 (1976).

In addition, 220 C.M.R. § 1.11(9) authorizes a party to file a motion for recalculation based on an alleged inadvertent error in calculation contained in a final Department Order. The Department grants motions for recalculation in instances where an Order contains a computational error or if schedules in the Order are inconsistent with the findings and conclusions contained in the body of the Order. Western Massachusetts Electric Company, D.P.U. 89-255-A at 4 (1990); Essex County Gas Company, D.P.U. 87-59-A at 1-2 (1988).

### III. ARGUMENT

#### A. The Department Should Reconsider the Following Adjustments to Revenues.

##### 1. The Department Should Reconsider its Special Contract Adjustment.

The Department adjusted Bay State's operating revenues for special contract revenues by (\$338,348). Order, Schedule 9, Col. 3 (Special Contracts). In doing so, the Department noted that the Company increased its test year revenues by \$418,748 for one special contract customer (Customer No. 1) and by an additional \$404,852 for another special contract customer (Customer No. 3). Both of these revenue increases were characterized in the Order as due to contracts with

pricing provisions entitling the Company to increase prices in proportion to increases in base rates. Order, p. 57. The \$418,748 was accurately characterized by the Department as additional revenue resulting from a base rate escalation clause in the special contract for Customer No. 1 computed on the basis of the Company's proposed base rate increase. The \$404,852, however, does not represent an adjustment for the proposed base rate increase, but rather represents an adjustment to test year revenue associated with Customer No. 3's minimum annual payment obligation in the test year that was not captured in the Company's initial filing of test year revenue. Exh. AG-9-1; Exh. AG-9-2; Exh. AG-22-44.

The Department adjustments for revenue increases for both special contracts were derived by reflecting the decrease from the Company's proposed base rate percentage increase of 15.7% (later revised to 16.75%) to the base rate increase of 8.99% allowed in the Department's Order. The inadvertent mischaracterization of the \$404,852 for Customer No. 3 causes the Department's adjustment to be overstated by \$173,029 ( $\$404,852 - [\$404,852 / 15.7\% \times 8.99\%]$ ). In other words, the \$404,852 in revenues for Customer No. 3 should not have been adjusted downward.

Further, the Department adjustment reflected an understatement of \$15,031 related to the revenue assigned to Customer No. 1, due to using the 15.7% proposed base rate increase rather than the revised 16.75% increase on which the \$418,748 was based (Customer No. 1 test year revenue of  $\$2,500,250 \times 16.75\%$ .) RR-AG-59, Exh. MP-1-4; Exh. BSG/JLH-2 at Sch. JLH-2-2, p. 15, line 2. The \$15,021 was derived as follows:  $(\$418,748 / 15.7\% \times 8.99\%) - (\$2,500,200 \times 8.99\%)$ . The net effect of these discrepancies equals \$158,017 ( $\$173,029 - \$15,021$ ). The

Department's original adjustment of \$338,358 should therefore be corrected to \$180,341 (\$338,358 – 158,017).

This adjustment increases special contract revenue, and since special contract revenues are credited against base revenue requirements, the adjustment decreases the base rate increase by the same amount. As a result, the base rate increase is reduced to \$11,770,274 (\$11,880,615 – 180,341) and the base rate percentage increase changes from 8.99% to 8.85%. Since the base rate percentage increase is a function of the special contract revenue and the special contract revenue is a function of the base rate percentage increase, the two form a circular reference, which requires at least one iteration to resolve. Applying the 8.85% base rate increase (instead of the 8.99% base rate increase) to the computation of the special contract escalation revenues results in a slightly smaller adjustment. The original figure of \$418,748 becomes \$197,483 (\$2,500,200 x 8.85%). The adjustment to the special contract of Customer No. 2, also subject to escalation, is similarly affected. Accordingly, the Order's original adjustment of (\$338,358) becomes (\$183,906) causing special contract revenues to increase by \$154,442. This increase in special contract revenues beyond that provided by Department's Order serves to lower the Company base rate revenue requirement assigned to tariff customers by the same amount. See, Attachment Bay State-2.

2. The Department Should Reconsider the Adjustment for Increased Revenues due to Energy Products and Services Fee Increases.

The Department adopted an adjustment, proposed by the Attorney General, that increases revenues for the rate year by \$794,259 to reflect increases in certain fees charged for Energy

Products and Services (“EP&S”) occurring in the test year and in 2005. Order, p. 66. The fee increases were for conversion burner rentals, Guardian Care Service contracts, service repairs and annual inspections. Exh. AG 9-45; RR AG-56. The Attorney General’s proposed adjustment was based on applying the fee increases to the test year volumes and customer numbers. The Attorney General claimed that this adjustment represented a known and measurable change to test year revenues. Order, pp. 62-63. In adopting the Attorney General’s proposed adjustment, the Department indicated that “the Company has presented no evidentiary basis to support a finding that test year volumes and customer numbers for the EP&S programs in question are not a fair proxy for future costs.” Order, p. 66.

However, the evidence in the record clearly demonstrates that the Attorney General’s proposed adjustment does not represent a known and measurable change and is not representative of future costs. While there will be a revenue increase in the rate year from annual inspections and the Guardian Care Service contracts, there will be a decline in revenues in the rate year for conversion burner rentals and service repairs due to the declining use of these rentals and services in terms of customer numbers and volume of services provided. The net revenue impact in the rate year of these four programs will be a decrease in revenue of \$19,960, not the \$794,259 revenue increase advanced by the Attorney General. RR-AG-56; Exh. AG 9-45(b) and (d).

It appears that the Department failed to consider the evidence in the record that demonstrates the Company has experienced a significant reduction in conversion burner rentals since the 2004 test year. The evidence indicates that the reduction in rentals is attributed to two

primary factors. First, the Company is experiencing a reduction in conversion burner rentals, because it no longer installs new residential rental conversion burners. This is due to the following factors:

- the cost and complexity of installation has risen dramatically due largely to the need for chimney liners and requirements for make-up air;
- cost increases have resulted in a higher rental rate than is marketable; and
- an increasing number of newer heating systems are not suitable for conversion, leaving only those customers with older systems as candidates for the service. As customers continue to upgrade heating systems, fewer customers remain as potential candidates. In addition, the remaining older systems tend to be less efficient once converted, and therefore create higher demand on Bay State's system and higher bills for customers with those systems.

Exh. AG-9-45. Second, with no new rentals, and with the majority of the installations having taken place more than 15 years ago, conversion burners are in very old systems that are now failing and being replaced with newer, better designed and more efficient customer-owned gas equipment. Exhs. AG-9-45(a) and (b).

The Department failed to recognize, evaluate or take note of this evidence in Exhibit AG-9-45 when it made its adjustment. At a minimum, the Department should reconsider its acceptance of the \$250,584 revenue increase included in the Attorney General's proposed adjustment for conversion burner rentals in the rate year. RR-AG-56, p. 2, Rental Conversion Burners revenue adjustment of \$250,584. The evidence shows a significant decline in the number of conversion burner customers in the rate year from the test year and a resulting decline in conversion burner rental revenues. RR-AG-56, p. 1; Exh. AG 9-45(b). With respect to fees for service repairs, the evidence demonstrates that the rate year level of these services will be

significantly less than in the test year, producing a decline in fee for service revenues of \$71,960. Exh. AG 9-45(d); RR AG-56.

The adjustment for a \$794,259 increase in revenues is not representative of rate year revenues and is not a “fair proxy for future costs.” The evidence clearly demonstrates that even with the fee increases, total revenues from the EP&S services will decline, not increase, in the rate year. The Department appears to have failed to consider the Company’s analysis that the test year is “not representative” of the rate year volumes and service counts. RR-AG-56: Exh. AG-9-45.

While the Department has on occasion departed from its policy of not making adjustments to test year revenues unless there is a significant change from test year revenues, there is no support for such a departure here, and in fact, there is extensive evidence that no departure is warranted. Boston Gas Company, D.T.E. 03-40, p. 27.

For these reasons, the Department should reconsider its adoption of the Attorney General’s adjustment for increased EP&S fee revenues.

**B. The Department Should Reconsider the Following Adjustments to Operating Expenses.**

1. The Department Should Reconsider its Metscan Adjustment to Correct an Inadvertent Error.

In establishing the Metscan amortization to reflect the Department’s 10-year PBR period, the Department amortized the initial Metscan cost estimate provided by Bay State in the proceeding, \$13,216,748. Order, p. 195, citing Exhs. BSG/JES-3; BSG/JES-1, at 1. Accordingly, the amortization allowed in the Order is \$1,321,675. Order, p. 200.

However, during the proceeding Bay State updated the Metscan costs to \$13,612,557. Exh. DTE -1-21(Supp). This amount was included in Bay State's final revised revenue requirement schedules. Exh. BSG/JES-1 at Sch. JES-8, Page 3 of 3 [Revision 1], line 5, (September 30, 2005). No party challenged the appropriateness of Bay State providing updated Metscan costs.

Correcting the amortization for the updated Metscan costs reduces Bay State's revenue deficiency, and therefore its revenue requirement, by \$39,580. Because Bay State believes the Department's treatment resulted from inadvertence, Bay State requests that the Department reconsider the adjustment.

2. The Schedules in the Order Should Demonstrate that the Low-Income Discount Recovery Reduces Bay State's Base Distribution Revenue Requirement.

In its initial filing, the Company proposed a distribution rate base allocator for the assignment of the low-income discount revenue shortfall consistent with Department precedent. Order, p. 340. However, since that filing, the Department issued its order in Low Income Discount, D.T.E. 01-106-C (November 13, 2005). It appears that in this proceeding the Department ordered Bay State to remove the entire recovery of the low-income discount shortfall from base rates and file a revised LDAC to include the recovery of the low-income revenue shortfall on a reconciling basis. Order, p. 342. Bay State's December 12, 2005 Interim Compliance Filing demonstrates this. However, the schedules accompanying the Order do not show this treatment, but rather purport to provide for recovery of the low-income discount shortfall in the calculation of Bay State's base rate revenue increase. Order, Schedule 1. Bay

State believes the schedules showing the base distribution increase should remove the recovery of the low-income discount shortfall from the base distribution rate in order to incorporate recovery of the entire low-income discount revenue shortfall through the LDAC. This treatment, if correct, will remove \$3,526,886 from Bay State's base distribution rate and similarly will reduce the Department's treatment of Bay State's base distribution rate revenue requirement by \$3,526,886. See, Bay State's December 12 Interim Compliance Filing, Sch. JAF-2-1 (Revised). Bay State seeks clarification or reconsideration of the schedules accompanying the Order, particularly the Department's Schedule 1, to demonstrate that these revenues are not included for recovery in Bay State's base distribution rate.<sup>1</sup>

3. The Department's Property and Liability Insurance Adjustment Should be Reconsidered.

The Department adjusted property and liability insurance expense by (\$136,754). Order, Schedule 2, Col. 3 (Property & Liability Insurance). The Department noted that the Company's revised revenue requirement schedules adjusted both the test year and pro forma workers' compensation insurance to recognize the capitalized portion of each. Order, p. 134.

However, in Bay State's initial filing, both the annualized (pro forma) and book (test year) amounts of property and liability insurance were gross insurance costs that included capitalized amounts. During the proceeding, Bay State revised its insurance amounts in order to reflect capitalized amounts for workers' compensation. Exh. BSG/JES-1 at Schedule JES-6

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<sup>1</sup> The Department should note that Bay State has in fact excluded the low-income discount from its base distribution revenue requirement in establishing the rate design for its Interim Compliance Filing and has provided for such recovery through the LDAC.

(REVISED), Page 5 of 20. Since both the annualized and book amounts were gross amounts, both amounts must be adjusted to properly reflect the net amount that was included in Bay State's cost of service. In making its adjustment, however, the Department compared the gross book expense level of \$2,301,379 with the net amount of \$2,089,509 to arrive at its \$211,870 adjustment. Order, Schedule 2, Col. 4. The resulting adjustment of (\$136,754) (Col. 3) is therefore overstated. The correct amount is provided in Table BSG-1, below.

TABLE BSG-1

	Test Year
Workers' Compensation	524,037
Capitalization %	24.36%
Capital/Correction	127,655

This results in an increase to Bay State's revenue deficiency of \$127,655. In addition, this adjustment will increase the Company's inflation allowance at 4.31% by \$5,502. For these reasons, the Department should reconsider its property and liability insurance adjustments.

4. Westborough Office Lease Expense Reduction Should Be Reconsidered.

Bay State requests that the Department reconsider its 55.7% reduction of the Company's lease costs based on a "square footage per employee" calculation using the number of employees occupying the Westborough office building in 1998. Order, p. 227. This adjustment does not comply with Department precedent. Bay State executed a 15 year lease in June of 1997, and is now obligated under the lease until June of 2012. Exh. AG-3-41 (Supp); Exh. AG-3-42. Bay State's decision to enter into the lease was reasonable and prudent at that time – in light of what

it knew or should have known about its projected needs when it entered into the lease. Even when the merger with NiSource occurred in 1999, Bay State expected to maintain its 1997-8 staffing levels in Westborough.

In order to determine the reasonableness of Bay State's actions, the Department must examine how the Company responded to the particular circumstances at the time and whether the Company's actions were in fact prudent in light of all the circumstances which were known or reasonably should have been known at the time a decision was made. Fitchburg Gas & Electric Light Company, D.T.E. 02-24/25 (2002) at 36, citing Boston Gas Company, D.P.U. 93-60 (1993) at 24-25; Western Massachusetts Electric Company, D.P.U. 85-270 (1986) at 22-23; - Boston Edison Company, D.P.U. 906 at 165 (1982).

However, with respect to Bay State's lease expense, the Department ignored its settled practice to recognize a utility's prudently-incurred long-term lease expense, based on a signed lease agreement, as a known and measurable expense, qualifying for inclusion in rates. Massachusetts-American Water Company. D.P.U. 95-118, p. 42, fn. 24. Without any notice to Bay State, the Department has departed from its precedents on this type of expense and adopted a novel interpretation of the "reasonableness" of lease expense.

The Order recognized that office space is often designed so that there is a certain amount of vacant space in any building, and that vacant space can be considered excess capacity only if its amount exceeds what is reasonable. Order, p. 225, citing New England Telephone and Telegraph, D.P.U. 86-33-G at 291. The Department also recognized that "if a company makes reasonable efforts to reuse the vacant space where possible, it would be inappropriate to reduce

the company's cost of service for the excess space." Id. In other words, in prior decisions, the Department has relied on the reasonableness of a company's actions when it entered into a lease, and the reasonableness of a company's actions to sublease space and mitigate the impact to ratepayers for any changes in circumstances that affect space utilization. This Order marks a deviation from that precedent and adopts a highly subjective standard based on a calculation of the square footage of leased space per company employee from many years ago, applied to current space utilization. The Department's decision here signals all utilities under its jurisdiction that the risk of long term leases resides with each utility's shareholders while the cost benefits of these leases belong to each company's customers. This approach is inequitable and should be corrected. While the Department may change its standards for review of certain expenses, it must have a sound basis for the change, and must afford affected parties an opportunity to conform their operations to the new standard. Boston Gas Company v. Department of Public Utilities, 405 Mass. 115, 121 (1989). In this case the Department has not satisfied these requirements.

The Westborough lease is a long term commitment that provides certainty for occupancy costs over the period of the lease, and therefore benefits Bay State customers. The Department's Order on the Westborough lease, if not reconsidered, would diminish the incentive for a utility to enter into long term office leases, as the expenses for such leases would be subject to hindsight review and adjustment by the Department if operational and other changes reduce the square footage per employee usage of the office space.

In addition, Bay State has aggressively pursued subleasing opportunities. The record indicates that the Company has undertaken reasonable efforts to sublease the space in the Westborough office building that is suitable for subleasing. Tr. 12, p. 1938. It is evident from the scaled diagrams of the floor plan for the office building that the Westborough headquarters contains a large amount of common space (meeting rooms, conference rooms, large entrance and reception area) that makes subleasing other portions of the building attractive to certain entities with needs for such space, but makes maximizing the square footage of subleased space more difficult than if the building had a more segmented design. See, Exh. AG 3-41, Attachment B, pp. 1-3. Much of the building is not vacant space, but common shared space. As evident from the floor plan diagrams, the large spaces for common activity on the first floor and the third-floor executive suites would need to be significantly modified through construction to accommodate further subleasing activity. The Department overstated the available vacant space by counting common areas as potential employee office space. There is no evidence that indicates that the existing amount of common space, or space that cannot be, or has not been, leased is unreasonable. D.P.U. 86-33-G at 291.

Furthermore, there has been no finding by the Department that the Company acted imprudently in entering into the lease or that the Company should change locations for its central office. The Department accepted the fact that the headquarters was conveniently located in the center of Bay State's three service territories. Tr. 12, p. 1938; Order p. 225.

It would be inequitable to penalize Bay State for having fewer employees working in Westborough now than it did in when the lease was executed. The Company demonstrated in

this proceeding, and reflected in its cost of service, that it has substantially reduced costs for its customers by centralizing in the NiSource Corporate Services Company ("NCSC") many of the functions that had previously been performed by Bay State as a stand-alone company in Westborough, such as investor relations, internal audit, general accounting, legal and similar functions. Tr. 12, p. 1936. These savings have been achieved by sharing these functions with other NiSource subsidiaries through NCSC. Bay State signed a long term lease for the office in June of 1997, has achieved cost savings since then that have inured to the benefit of customers, and has undertaken reasonable efforts to mitigate the lease costs by subleasing large portions of its office building headquarters. The Department should not penalize the Company for a limited amount of office space that should be viewed as a cost to achieve the savings mentioned above, and as a result may be unneeded now, but for which the Company is obligated under its lease.<sup>2</sup>

For the above reasons, the Department should reconsider its reduction in the Company's lease costs based on the square footage per employee calculation.

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<sup>2</sup> If the Department declines to reconsider the issue, it should make the following corrections in its adjustment: The Department made an adjustment to allocate 16.4% of the lease and operating expenses to Northern Utilities ("Northern"), since Northern is allocated 16.4% of the costs of the lease. Order, p. 226-7. It appears the Department applied the 16.4% allocation for Northern to the total lease cost, rather than to the net lease cost after reflecting the sublease revenues. The amended services agreement between Bay State and Northern provides that Bay State and Northern proportionately share all costs and revenues associated with the Westborough office building. Exh. AG 1-27, Attachment AG 1-27 (A). The revenues from the sublease must be subtracted from lease costs before the remaining costs are assigned to Northern. The correct calculation requires that total lease costs be reduced by the sublease revenues, and then by the 16.4% allocation factor for Northern. This treatment is reflected on Attachment Bay State-3 and reduces the assignable expense to Northern from \$272,090 (line 3, column 5) to \$222,615 (line 14, column 5). Carrying this difference through the Department's adjustment reduces the lease adjustment from \$756,009 to \$734,092, thereby increasing Bay State's revenue requirement by \$21,927. See, Attachment Bay State-3.

5. The Department Should Reconsider its Adjustment to EP&S Promotional and Advertising Expenses Related to Customers Converting from Electric Heat to Gas Heat.

In its Order, the Department reduced promotional and advertising expenses by \$350,285 which it indicated represented the portion of promotional and advertising costs related to converting customers from electric heat to gas heat which, pursuant to G.L. c. 164, §33A is not recoverable. The adjustment assumes that of Bay State's 3,317 new customers in the test year, 844 or 25.44% were conversions from electric to gas. The Department, therefore, reduced total advertising and promotional expenses by 25.44% or \$350,285. Order, pp. 219-220.

The adjustment assumes that all conversions in the test year were from electric to gas. This is incorrect, and it appears that the Department has misinterpreted RR AG-36 and incorrectly concluded that 25.44% of all new customers in the test year were conversions from electric to gas. Order, p. 219. Also, the Department mistakenly referred to "25.44% of the total conversions undertaken by the Company." Order, p. 219. RR AG-36 provides the total number of Bay State customers (844 residential, commercial and industrial customers) that converted from an alternate fuel to gas in the test year.<sup>3</sup> It specifically states that the Company tracks the total number of conversions but does not track the number of conversions by fuel type, although the vast majority of conversions are from fuel oil to gas. RR-AG-36. Mr. Bryant explained why the Company does not always know the fuel type that a customer is converting from or whether the request for service is for new service or a conversion from a prior fuel type, but that the

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<sup>3</sup> In its Reply Brief, the Company mistakenly indicated that the 844 conversion customers were residential. Bay State Reply Br. pp. 24, 27.

“number of electric to gas conversions would be very small.” Tr. 6, pp. 960-961. The total number of new customers in the test year was 3,317 (2,860 residential and 457 business). Exh. AG-6-14. Therefore, the Department was incorrect in concluding that in the test year 844, or 25.44%, of all new customers (3,317) customers converted from electric heat to gas heat. Furthermore, this conclusion would not be consistent with the unfavorable economics of converting from electric heat to gas heat in most situations.

As the Company indicated in its Reply Brief at pages 24 and 27, and as is supported by the evidence, if it is assumed that 85% of the 844 conversions are from fuel oil to gas, a plausible estimate of the number of conversions from electric to gas is 15% or only 3.8% of all new customers, not the 25.44% recommended by the Attorney General and adopted by the Department.  $(844 \cdot .15) / 3,317 = 3.8\%$ . Accordingly, if the Department is to make any adjustment here it should reduce total promotional and advertising expenses by 3.8% or \$52,312, rather than the \$350,285 contained in the Order.

6. The Department Should Reconsider its Adjustment to Rate Case Expense

In its Order, the Department denied \$25,150 in expenses for Corporate Renaissance, a vendor that provided services to Bay State for the rate proceeding. Order, p. 160. As a preliminary matter, this amount is incorrect based on the final summary of costs by vendor that was submitted to the Department. Exh. DTE-15-58 SUPP 6 (9/30/05). Specifically, Attachment Exh. DTE-15-58 (a), SUPP 6 (9/30/05), page 4 of 7, shows the total Corporate Renaissance charges to be \$20,504.30. Therefore, the Department’s adjustment is overstated by \$4,645.70.

Further, the Department denied these expenses on the mistaken grounds that Corporate Renaissance completed Bay State's Service Quality Report for 2004-2005. Order, pp. 160-1. That finding is not supported by the record. Exhibit AG-3-18, that was filed on June 6, 2005, demonstrates that for the rate case Corporate Renaissance prepared two audits of Bay State's service quality process after collecting service quality and related information from the Company; it did not prepare the service quality reports which are prepared internally by Bay State. When preparing its initial filing, Bay State recognized that service quality was likely to be an important issue in the proceeding and the Corporate Renaissance audits assisted in the preparation of the filing on this issue.

Reconsideration is appropriate here because the Department apparently did not take into account the evidence in Exhibit AG-3-18.

**C. The Department Should Reconsider the Following Adjustments to Rate Base.**

**1. The Department Should Correct the Cash Working Capital Adjustment.**

In its Order, the Department approved Bay State's calculation for cash working capital without modification. Order, p. 100.

In the footnote to Schedule 6 of the Order, the Department noted that Bay State did not include in its cash working capital O&M expense the amount for bad debt related to the revenue increase. However, Bay State notes that when making its calculation on this schedule, the Department used the incorrect amount of O&M expense. Order, Schedule 6 (\$97,809,713 of O&M expense). The correct amount of O&M expense, as calculated by the Department in its Order is \$97,583,379. Order, Schedule 2. The difference is \$226,334, and was used by the

Department for bad debt expense related to the requested revenue increase. Order, Schedule 2, Col. 3. Correcting this error, Bay State's revenue deficiency decreases by approximately \$3,065. ( $\$226,334 \times 11.564\% \times 11.71\%$ ). The 11.564% is the cash working capital percentage shown in Schedule 6, and the 11.71% is the pre-tax rate of return provided by the Order. Order, p. 125. For these reasons, Bay State seeks reconsideration of this issue.

2. The Department's Rejection of Bay State's Prudent Investment in its Customer Information System Should Be Reconsidered.

Bay State sought inclusion of its \$21,546,059 investment in a comprehensive Customer Information System ("CIS") in rate base in this proceeding. In its Order, the Department only allowed the original project cost estimate of \$7,000,000, along with \$3,106,880 of change order cash requests, and the original database conversion cost estimate of \$1,101,600 – for a total allowed CIS project cost of \$11,208,480, and excluding \$10,337,579 in CIS costs. Order, p. 95. Of the \$10,337,579 that the Department excluded, \$5,296,444 represented CIS software costs and \$5,041,135 represented CIS Pro-Edits conversion costs. Order, p. 96.<sup>4</sup>

The Department's adjustment is not supported by the evidence and is inconsistent with the treatment provided by the Department for other utility CIS investments. Accordingly, Bay

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<sup>4</sup> In addition, the Department made a corresponding adjustment to amortization reserve. Order, p. 96. Further the Department determined an accumulated amortization, since the assets were placed into service, of \$2,692,359 for the disallowed portion of the CIS, and \$2,016,454 associated with the CIS Pro-Edits. Order, p. 96. Bay State's reserve for amortization associated with the CIS project was reduced by \$4,708,813, producing a net reduction of \$5,628,766. Order, p. 97. The Department also made corresponding adjustments to Bay State's deferred income tax reserve (\$2,207,883). Order, p. 97.

State requests that the Department reconsider its determination and permit Bay State to recover the full investment in its CIS and the amortization of its unamortized balance.

As a preliminary matter, the Department determined that the CIS was used and useful, and therefore concluded that Bay State met the first prong of the test for inclusion in rate base. Order, p. 88. The Department's decision to reject the costs specifically associated with CIS integration Software and CIS Pro-Edits conversion is illogical and arbitrary. Without Bay State having undertaken that integration and conversion to ensure the proper functioning of the CIS, the CIS would not be used and useful today. Although Bay State's initial estimate of its CIS cost did not match the final cost, the record does not support a finding that the CIS integration Software and CIS Pro-Edits were the causes of the difference. The Department's attempt to attribute the cost of these CIS necessities to an apparent cost overrun is not supported by the evidence.

The Department determined that Bay State's decision to install the CIS was prudent, including the extent to which Bay State used a cost-benefit analysis or similar management tool to review the alternatives available to it. Order, p. 88. The Department also determined that Bay State's decision to replace its non-compliant legacy CIS with a Y2K-compliant system was reasonable. Order, p. 89.

The Department criticized Bay State's failure to competitively bid the large CIS project. Order, p. 89-90. However, the Department apparently overlooked evidence in the record that demonstrated that Bay State was under considerable pressure with a large number of competing entities in the market seeking to place Y2K-compliant systems on line in advance of

December 31, 1999. RR-DTE-109, pp. 2-3. Moreover, NiSource and Bay State were fully familiar with the CIS installed by IBM at NIPSCO. They were aware of its capabilities, its relative invulnerability to Y2K concerns, and believed that it presented a minimum of integration challenges. Tr. Vol. 15, p. 2545; RR-DTE-109. It is undeniable that this particular system was, and is, critical to the Company's operations and the need to cure the Y2K deficiency took precedence over issues related to competitive bidding. The evidence supports the decision to commit directly to IBM without using valuable time to develop and implement an RFP. Id.

Moreover, Bay State provided the testimony of Thomas McKain, the NiSource executive who was in charge of the CIS implementation decision in 1999. Tr. Vol. 15. This testimony should be accepted by the Department as a reasonable and sufficient substitute for the "systematic, contemporaneous documentation" that the Department indicated was lacking.<sup>5</sup> Mr. McKain testified that use of existing code at NIPSCO was desirable, that it would leverage existing institutional knowledge, and that future support costs were anticipated to be generally lower because of the sharing of common solutions. RR-DTE-109. The Department's decision to ignore this evidence was in error.

Additionally, the Department erred in its determination that the only evidence provided by Bay State that it contained the cost of the CIS was its "general description" of its capital authorization review policies. Order, p. 93. In fact, Bay State described how it aggressively

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<sup>5</sup> The Department stated it requires "systematic, contemporaneous documentation of well-analyzed investment decision-making" that would sustain Bay State's burden that there were "reasonable and economic rationales for favoring NIPSCO's" CIS. Order, p. 89.

applied cost-benefit management techniques to the CIS, in spite of the continuing complexity of the project's implementation.

The Department erred in its finding that Bay State failed to fully consider alternative courses of action. Order, p. 95. Bay State considered whether it should reinstate a stand-alone CIS in light of the extensive work that needed to be done to prepare for Y2K challenges, or whether it should integrate with its affiliate, NIPSCO. The record clearly demonstrates that Bay State determined that common systems support would lower IT support costs on a going-forward basis, and allow the Company to focus its attention on operating practices from a common perspective, leading to improved customer service. RR-DTE-109. In the judgment of NiSource and Bay State management, the use of common systems (due to Y2K or other application or conditions issues) would better serve customers. RR-DTE-109. Although Bay State did not competitively bid its CIS implementation, it did consider all reasonable alternatives.

Finally, the Department failed to consider all the evidence in its finding that Bay State failed to exercise adequate cost controls. Order, p. 95. Not only did Bay State continually evaluate its project costs, but the record provides extensive justification for the costs included in the final CIS cost. RR-DTE-109; Tr. Vol 15.

Initial estimates for this project were made before any development work was completed. At \$7,000,000, Bay State's initial estimate was clearly optimistic. No other CIS cost on the Gartner report even comes close to that amount. RR-DTE-109; Tr. Vol. 15. Bay State faced unique challenges including the timing of implementation in terms of competition in the marketplace for Y2K resources and the complex task of integrating existing customer, credit,

external data, financial, plant record, work order and asset information systems under substantial time pressure. Bay State's initial project estimate was not viable, but the final CIS project costs were reasonable, given the timing, scope and integration challenges.

As the evidence demonstrates, Bay State's final CIS cost (including the Department's asserted unexplained cost increases) was reasonable when compared to amounts expended on similar systems by similarly sized utilities. Exh. AG-3-16 Supplement. Further, contrary to the Department's finding in its Order, Bay State provided evidence of the reasons behind cost increases, including additional post implementation customer coding, testing support, and data conversion project change order requests. RR-AG-75, Confidential. The CIS was required to be integrated with the SCADA, the EASY, customer accounting, internal and external payment agents (First Data and Mellon), meter-to-cash, Metscan and Itron, the work order management system, demand-side management customer files, credit bureaus, low-income assistance programs, Lawson, tax and IRS accounting files. RR-DTE-109; RR-AG-75(B). Each IBM deliverable was managed by ensuring its usefulness through integration testing, and Bay State was not obliged to accept the deliverable until system tests of interfaces determined that the CIS was working properly. RR-AG-75(A) at 30.

The Department has recognized that integration problems often exist in technology implementations such as the CIS. In recent cases, the Department evaluated such integration problems that increased the cost of Boston Gas' CRIS (the equivalent to the CIS), and allowed those additional costs in rates. KeySpan Energy Delivery New England, D.T.E. 03-40 at 87. Although finding that Boston Gas had not been prudent in each stage of its decision-making, the

Department allowed the vast majority of Boston Gas' CRIS implementation costs in recognition of the complexity of the task and the usefulness of the technology to customers once in place. Bay State requests that the Department follow this approach and treat Bay State's complex CIS implementation in the same manner, permitting the full implementation cost in rates.

In sum, the CIS is used and useful for the benefit of customers. In spite of the fact that Bay State was not able to explain in every instance why its original estimates were exceeded, dollar-by-dollar, the evidence considered as a whole is more than sufficient for the Department to conclude that the amounts by which the estimates were exceeded were in fact prudent. Moreover, this demonstration was made through contemporaneous change order requests and contract information, and supported by the testimony of individuals with personal knowledge of the events at hand at the time they occurred. The Department should reconsider its adjustment and permit Bay State to recover its full investment in its CIS. Without such reconsideration, and in the face of a decision of the Department denying recovery of this used and useful plant, Bay State will be required to evaluate the full impact of the disallowance, including but not limited to its inability to recover in rates \$1.465 million per year in prudently-incurred investment providing significant benefits to customers.

**D. The Department Should Reconsider or Clarify the Earnings Sharing Mechanism Approved as Part of Bay State's PBR Plan.**

Although not entirely clear, it appears that the Department adopted the Company's originally proposed earnings sharing mechanism ("ESM") that included a 400 basis point deadband (plus or minus) around the allowed return on equity. Order, p. 405. During the

proceeding, Bay State indicated that it would be appropriate for Bay State's earnings sharing bandwidth to be narrowed to 200 points (plus or minus) with a 50/50 sharing outside of the bandwidth, as recommended by Dr. Kaufmann. Exh. BSG/Rebuttal-5, pp. 10-11. If the Department has approved the 400 basis point deadband, Bay State asks the Department to reconsider this decision, as the 400 basis point deadband is too broad in light of the Department's simultaneous denial of Bay State's Steel Infrastructure Replacement ("SIR") Annual Base Rate Adjustment Mechanism ("ABRAM").

Bay State's initial proposal, which included the 400 basis point deadband, recognized that if its SIR base rate adjustment mechanism were approved, the Company would require less protection under its PBR for an earnings shortfall. However, given that the Department has now denied Bay State's proposal for the SIR ABRAM, Bay State's earnings will be more volatile. In this proceeding, the Division of Energy Resources proposed a deadband narrower than 400 basis points. Therefore, all parties who commented on the issue favor a narrower deadband than the originally proposed 400 basis points. Further, a narrower deadband will benefit customers in an overearning situation. Because the Department did not appear to evaluate Bay State's rebuttal evidence concerning a 200 basis point deadband, Bay State seeks reconsideration of this issue.

#### IV. CONCLUSION

For the reasons set forth in this Motion, Bay State Gas Company requests that the Department grant its requests for reconsideration, or alternatively, clarification or recalculation, as the Department may deem appropriate.


Respectfully submitted,

BAY STATE GAS COMPANY

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DATED: December 13, 2005

**SCHEDULE 1****REVENUE REQUIREMENTS AND CALCULATION OF REVENUE INCREASE**

	PER COMPANY (INITIAL FILING)	COMPANY ADJUSTMENTS DURING PENDENCY OF CASE	ADJUSTMENTS PER MOTION FOR RECONSIDERATION	IF APPROVED AS REQUESTED PER MOTION
<b>COST OF SERVICE</b>				
Total O&M Expense	407,006,651	(78,812)	(636,627)	406,291,213
Depreciation	28,800,958	10,148	(6,704)	28,804,402
Amortization	6,552,895	79,161	(1,361,256)	5,270,800
Taxes Other Than Income Taxes	10,067,165	(110,345)	0	9,956,820
Income Taxes	16,082,994	(287)	(1,960,358)	14,122,348
Interest on Customer Deposits	72,506	0	0	72,506
Amortization of ITC	(373,740)	0	149,811	(223,929)
Return on Rate Base	35,938,150	(119,781)	(3,192,642)	32,625,727
Total Cost of Service	504,147,579	(219,916)	(7,007,776)	496,919,887
<b>OPERATING REVENUES</b>				
Operating Revenues	510,457,335	0	0	510,457,335
Revenue Adjustments*	(28,129,335)	352,622	(180,309)	(27,957,022)
Total Operating Revenues	482,328,000	352,622	(180,309)	482,500,313
<b>Total Base Revenue Deficiency PER MOTION</b>	<b>21,819,579</b>	<b>(572,538)</b>	<b>(6,827,467)</b>	<b>14,419,574</b>
<b>Adjustment to Remove Low Income Discount from Base Distribution Rates</b>				<b>(3,526,886)</b>
<b>REVISED BASE REVENUE DEFICIENCY PER MOTION</b>				<b>10,892,688</b>
<b>Total Base Revenue Deficiency PER 11/30/05 ORDER</b>				<b>11,145,974</b>
<b>Net Decrease in Base Rate Revenue Deficiency as Compared to 11/30/05 Order</b>				<b>(253,286)</b>

\* The Per Company column includes \$418,748 in special contract revenues omitted from the Company's filed schedules, but included in the Company's Cost of Service. See Schedule 9 for details.

**SCHEDULE 2**  
**OPERATIONS AND MAINTENANCE EXPENSES**

	PER COMPANY (INITIAL FILING)	COMPANY ADJUSTMENTS DURING PENDENCY OF CASE	ADJUSTMENTS PER MOTION FOR RECONSIDERATION	IF APPROVED AS REQUESTED PER MOTION
Purchased Gas Expense	323,863,512	0	0	323,863,512
Total Adj. to Purchased Gas Expense	(16,384,861)	0	0	(16,384,861)
Total Purchased Gas Expense	307,478,651	0	0	307,478,651
O&M Expense	99,007,484	0	0	99,007,484
ADJUSTMENTS TO O&M EXPENSE:				
Payroll - Union	1,173,418	52,656	0	1,226,074
Payroll - Non Union	443,840	10,473	0	454,313
Incentive Compensation	(124,422)	0	0	(124,422)
Benefits:				
Medical Insurance	684,618	0	0	684,618
Dental Insurance	56,427	0	0	56,427
Property & Liability Insurance	94,997	(170,113)	(9,099)	(84,215)
Self Insurance Claims	80,021	62,945	(295,741)	(152,775)
Bad Debt Expense - Gas Revenue	7,106,032	(86,279)	5,207	7,024,960
Bad Debt Related to Requested Revenue Incre	482,572	(16,599)	(155,953)	310,020
Bad Debt Expense - EP&S	246,232	0	0	246,232
NiSource Corporate Jet	0	0	(728)	(728)
Westborough Lease	0	0	0	0
CGA Bad Debt Tracker	(5,290,135)	0	0	(5,290,135)
LDAC Trackers	(3,937,032)	0	0	(3,937,032)
NiSource Corporate Services Company	748,123	(36,084)	0	712,039
Rents and Leases	(2,608,947)	(22,085)	0	(2,631,032)
Materials and Supplies	67,947	0	0	67,947
Advertising	0	0	(52,312)	(52,312)
Other O&M Expenses	162,729	(310,000)	0	(147,271)
Farm Discounts	15,320	0	(7,660)	7,660
Gain on Sale of Property	(408,197)	0	204,099	(204,098)
Rate Case Expense	331,700	158,345	(246,056)	243,989
Inflation	1,195,274	277,929	(78,384)	1,394,819
Sum of O&M Expense Adjustments	520,516	(78,812)	(636,627)	(194,922)
Total O&M Expense	99,528,000	(78,812)	(636,627)	98,812,562

**SCHEDULE 3**  
**DEPRECIATION AND AMORTIZATION EXPENSES**

	PER COMPANY (INITIAL FILING)	COMPANY ADJUSTMENTS DURING PENDENCY OF CASE	ADJUSTMENTS PER MOTION FOR RECONSIDERATION	IF APPROVED AS REQUESTED PER MOTION
Depreciation Expense	28,800,958	10,148	(6,704)	28,804,402
Amortization Expense	6,552,895	79,161	(1,361,256)	5,270,800
<b>Total Depreciation &amp; Amortization Expenses</b>	<b>35,353,853</b>	<b>89,309</b>	<b>(1,367,960)</b>	<b>34,075,202</b>

**SCHEDULE 4****RATE BASE AND RETURN ON RATE BASE**

	PER COMPANY (INITIAL FILING)	COMPANY ADJUSTMENTS DURING PENDENCY OF CASE	ADJUSTMENTS PER MOTION FOR RECONSIDERATION	IF APPROVED AS REQUESTED PER MOTION
Utility Plant in Service	760,883,211	0	(92,962)	760,790,249
LESS:				
Reserve for Depreciation and amortization	264,064,800	0	(13,928)	264,050,872
Net Utility Plant in Service	496,818,411	0	(79,034)	496,739,377
ADDITIONS TO PLANT:				
Cash Working Capital	11,453,613	(7,194)	(19,734)	11,426,685
Materials and Supplies	3,408,069	0	0	3,408,069
Total Additions to Plant	14,861,682	(7,194)	(19,734)	14,834,754
DEDUCTIONS FROM PLANT:				
Work in Progress	6,332,113	0	106,205	6,438,318
Reserve for Deferred Income Tax	85,522,538	0	(12,190)	85,510,348
Amortization of Intangible Plant	19,327,463	0	0	19,327,463
Unamortized ITC-Pre1971	11,170	0	0	11,170
Customer Contribution	3,090,784	0	0	3,090,784
Customer Advances	11,088	0	0	11,088
Unclaimed Funds	278,310	0	0	278,310
Total Deductions from Plant	114,573,466	0	94,015	114,667,481
RATE BASE	397,106,627	(7,194)	(192,783)	396,906,650
COST OF CAPITAL	9.05%	-0.03%	-0.80%	8.22%
RETURN ON RATE BASE	35,938,150	(119,781)	(3,192,642)	32,625,727

**SCHEDULE 5**  
**COST OF CAPITAL**

PER COMPANY

	PRINCIPAL	PERCENTAGE	COST	RATE OF RETURN
Long-Term Debt	\$183,500,000	46.05%	6.18%	2.85%
Preferred Stock	\$0	0.00%	0.00%	0.00%
Common Equity	\$214,940,703	53.95%	11.50%	6.20%
Total Capital	\$398,440,703	100.00%		9.05%
Weighted Cost of				
Debt				2.85%
Equity				6.20%
Cost of Capital				9.05%

PER COMPANY - ADJUSTED

	PRINCIPAL	PERCENTAGE	COST	RATE OF RETURN
Long-Term Debt	\$183,500,000	46.05%	6.12%	2.82%
Preferred Stock	\$0	0.00%	0.00%	0.00%
Common Equity	\$214,940,703	53.95%	11.50%	6.20%
Total Capital	\$398,440,703	100.00%		9.02%
Weighted Cost of				
Debt				2.82%
Equity				6.20%
Cost of Capital				9.02%

PER ORDER

	PRINCIPAL	PERCENTAGE	COST	RATE OF RETURN
Long-Term Debt	\$183,500,000	46.05%	6.12%	2.82%
Preferred Stock	\$0	0.00%	0.00%	0.00%
Common Equity	\$214,940,703	53.95%	10.00%	5.40%
Total Capital	\$398,440,703	100.00%		8.22%
Weighted Cost of				
Debt				2.82%
Equity				5.40%
Cost of Capital				8.22%

**SCHEDULE 6**  
**CASH WORKING CAPITAL**

	PER COMPANY (INITIAL FILING)	COMPANY ADJUSTMENTS DURING PENDENCY OF CASE	ADJUSTMENTS PER MOTION FOR RECONSIDERATION	IF APPROVED AS REQUESTED PER MOTION
Other O&M Expense	99,045,429	(62,213)	(170,654)	98,812,562
Cash Working Capital Allowance *	11,453,613	(7,194)	(19,734)	11,426,685
<b>Total Cash Working Capital Allowance</b>	<b>11,453,613</b>	<b>(7,194)</b>	<b>(19,734)</b>	<b>11,426,685</b>
*Composite Total times (42.21 / 365)	11.564%			

Company O&M expense did not include Bad Debt related to revenue increase; DTE adjustment includes Department adjustments as well as Company Bad Debt related to revenue increase.

**SCHEDULE 7**  
**TAXES OTHER THAN INCOME TAXES**

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
FICA Taxes	2,085,843	3,558	0	2,089,401
Federal Unemployment Taxes	26,314	0	0	26,314
State Unemployment Taxes	460,779	0	0	460,779
Excise Tax	16,856	0	0	16,856
Property Taxes	7,382,453	(113,903)	0	7,268,550
State Franchise	45,845	0	0	45,845
Other State	12,791	0	0	12,791
Other Federal	36,284	0	0	36,284
<b>Total Taxes Other Than Income</b>	<b>10,067,165</b>	<b>(110,345)</b>	<b>0</b>	<b>9,956,820</b>

**SCHEDULE 8**  
**INCOME TAXES**

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Rate Base	397,106,627	(7,194)	(192,783)	396,906,650
Return on Rate Base	35,938,150	(119,782)	(3,192,642)	32,625,726
LESS:				
Interest Expense	11,317,539	(119,335)	(5,436)	11,192,768
Amortization of Investment Tax Credit	373,740	0	(149,811)	223,929
Amortization of Excess Deferred Incomes Taxes	(263,604)	0	0	(263,604)
Total Deductions	11,427,675	(119,335)	(155,247)	11,153,093
Taxable Income Base	24,510,475	(447)	(3,037,395)	21,472,633
Taxable Income	40,329,866	(735)	(4,997,728)	35,331,403
Mass Franchise Tax 6.50%	2,621,441	(47)	(324,851)	2,296,543
Federal Taxable Income	37,708,425	(688)	(4,672,877)	33,034,860
Federal Income Tax Calculated	13,197,949	(240)	(1,635,506)	11,562,203
Total Income Taxes Calculated	15,819,390	(287)	(1,960,358)	13,858,744
Amortization of Investment Tax Credit	(373,740)	0	149,811	(223,929)
Amortization of Excess Deferred Incomes Taxes	263,604	0	0	263,604
<b>Total Income Taxes</b>	<b>15,709,254</b>	<b>(287)</b>	<b>(1,810,547)</b>	<b>13,898,419</b>

**SCHEDULE 9**  
**REVENUES**

	PER COMPANY (INITIAL FILING)	COMPANY ADJUSTMENTS DURING PENDENCY OF CASE	ADJUSTMENTS PER MOTION FOR RECONSIDERATION	IF APPROVED AS REQUESTED PER MOTION
<b>OPERATING REVENUES PER BOOKS</b>	510,457,335	0	0	510,457,335
<b>Revenue Adjustments</b>				
Weather Normalization	(2,555,582)	0	0	(2,555,582)
Annualized Revenue Adjustment	(15,224,173)	0	0	(15,224,173)
Annualized Indirect GAF and LDAF Revenues	3,336,453	0	0	3,336,453
Off System Sales	(3,874,467)	0	0	(3,874,467)
Lost Net Revenue	(329,961)	0	0	(329,961)
Carrying Costs - Pre Tax of Rate of Return	988,820	0	0	988,820
Production & Storage Revenues	8,085,135	0	0	8,085,135
Energy Products and Services	0	0	0	0
Special Contracts*	418,748	412,215	(183,906)	647,057
Elimination of Indirect GAF and LDAF	(26,092,473)	0	0	(26,092,473)
Add Back Bad Debt Exp. Included in Indirect Gas Cost	7,118,165	(59,593)	3,597	7,062,169
<b>Total Revenue Adjustments</b>	(28,129,335)	352,622	(180,309)	(27,957,022)
<b>Adjusted Total Operating Revenues</b>	<b>482,328,000</b>	<b>352,622</b>	<b>(180,309)</b>	<b>482,500,313</b>
<b>Operating Revenues removed for Non-distribution services</b>				
Special Contracts*	3,921,013	412,215	(183,906)	4,149,322
Energy Products and Services	14,515,390	0	0	14,515,390
Reactivation Fee	34,855	0	0	34,855
Warrant Fee	7,270	0	0	7,270
Locksmith Fee	4,400	0	0	4,400
Late-payment Fee	215,537	0	0	215,537
Returned Check Fee	27,736	0	0	27,736
Gas Property	16,890	0	0	16,890
IC Rental	871,002	0	0	871,002
LNG Tank	178,750	0	0	178,750
Shut-Offs	93,975	0	0	93,975
Pension and PBOP	5,630,282	0	0	5,630,282
<b>Total</b>	<b>25,517,100</b>	<b>412,215</b>	<b>(183,906)</b>	<b>25,745,409</b>

\* although the Company did not include this line in its filed schedules, it appears in the Company's cost of service schedules; additionally, on Brief the Company included an adjustment of \$7,363 to special contract revenues that it did not include on its revised schedules. The Department has included this in the Company's Adjustment column.

Bay State Gas Company

Analysis of DTE Special Contract Revenue Adjustments  
D.T.E. 05-27

**DTE Adjustment to Special Contracts of (\$338,348)**

	(1)	(2)	(3)	(4)	(5)
	Rev. Amts Filed in Case	Initial Prop. BR % Incr	Gross Back Up	Adjust for Order BR% 8.99%	Adjustment
			(1) / (2)	(3) X 8.99%	(4) - (1)
Customer No. 1 (Base Rate Increase)	\$ 418,748	15.70%	\$ 2,667,185	\$ 239,780	\$ (178,968)
Customer No. 3 (Min. Bill -TY adj.)	\$ 404,852	15.70%	\$ 2,578,675	\$ 231,823	\$ (173,029)
Customer No. 2 (Base Rate Increase)	\$ 7,363	16.75%	\$ 43,958	\$ 3,952	\$ (3,411)
					\$ (355,408)
PLUS:					
Other SP Cnt (Inflation Increase)	\$ 17,050				\$ 17,050
Total DTE Adjustment					<b>\$ (338,358)</b>

**Revised Adjustment to Special Contracts of (\$180,341)**

	(1)	(2)	(3)	(4)	(5)
	Rev. Amts Filed in Case	Initial Prop. BR % Incr	Gross Back Up	Adjust for Order BR% 8.99%	Adjustment
			(1) / (2)	(3) X 8.99%	(4) - (1)
Customer No. 1 (Base Rate Increase)	\$ 418,748	15.70%	\$ 2,500,200	\$ 224,768	\$ (193,980)
Customer No. 2 (Base Rate Increase)	\$ 7,363	16.75%	\$ 43,958	\$ 3,952	\$ (3,411)
					\$ (197,391)
PLUS:					
Customer No. 3 (Min. Bill -TY adj.)	\$ 404,852			\$ 404,852	\$ -
Other SP Cnt (Inflation Increase)				\$ 17,050	\$ 17,050
Total Adjustment					\$ (180,341)
Original Base Rate Increase					\$ 11,880,615
Revised Base Rate Increase					\$ 11,700,274
Actual Base Rate Percentage Increase					8.853%

**Revised Adjustment to Special Contracts of (\$183,906)**

	(1)	(2)	(3)	(4)	(5)
	Rev. Amts Filed in Case	Initial Prop. BR % Incr	Gross Back Up	Adjust for Order BR% 8.85%	Adjustment
			(1) / (2)	(3) X 8.85%	(4) - (1)
Customer No. 1 (Base Rate Increase)	\$ 418,748	15.70%	\$ 2,500,200	\$ 221,265	\$ (197,483)
Customer No. 2 (Base Rate Increase)	\$ 7,363	16.75%	\$ 43,958	\$ 3,890	\$ (3,473)
					\$ (200,956)
PLUS: Customer No. 3 (Min. Bill -TY adj.)	\$ 404,852			\$ 404,852	\$ -
Other SP Cnt (Inflation Increase)				\$ 17,050	\$ 17,050
Total Adjustment					\$ (183,906)
Original Base Rate Increase					\$ 11,880,615
Revised Base Rate Increase					\$ 11,696,709
Actual Base Rate Percentage Increase					8.850%

**Bay State Gas Company  
D.T.E. 05-27  
Westborough Lease Expense**

Ln. No.	Item (1)	Order Reference (2)	Lease Payment (3)	Operating Cost (4)	Total (5)
<b><u>Department's Adjustment</u></b>					
1	Total Westborough Cost	Pg. 227, 2nd. Para.	1,172,165	486,921	1,659,086
2	Sub lease @ 18.18% of Ln. 1	Pg. 226, 1st. Para.	213,155	88,522	301,677
3	Northern @ 16.4% of Ln. 1	Pg. 226, 1st. Para.	<u>192,235</u>	<u>79,855</u>	<u>272,090</u>
4	Net expense (Ln.1 - Lns. 2 & 3)	Pg. 226, 2nd. Para.	766,775	318,544	1,085,319
5	Reduction in expense @ 55.7%	Pg. 227, 1st. Sent.	427,094	177,429	604,523
6	Total reduction (Lns. 1,2 & 4)	Pg. 227, 2nd. Para.	832,484	345,806	1,178,290
7	Company's adjustment				
8	Subleasing revenue	Pg. 227, 2nd. Para.	179,654		179,654
9	Operating exp. to Northern	Pg. 227, 2nd. Para.	<u>162,772</u>	<u>79,855</u>	<u>242,627</u>
10	Department's adj. (Ln. 5 - Lns. 8 & 9)	Pg. 227, 2nd. Para.	<u>490,058</u>	<u>265,951</u>	<u>756,009</u>
<b><u>Corrected Adjustment</u></b>					
11	Total Westborough Cost	Pg. 227, 2nd. Para.	1,172,165	486,921	1,659,086
12	Sub lease @ 18.18% of Ln. 11	Pg. 226, 1st. Para.	<u>213,155</u>	<u>88,522</u>	<u>301,677</u>
13	Net assignable costs (Ln. 11 - Ln. 12)		959,010	398,399	1,357,409
14	Northern @ 16.4% of Ln. 13		<u>157,278</u>	<u>65,337</u>	<u>222,615</u>
15	Net expense (Ln.13 - Ln.14)		801,732	333,062	1,134,794
16	Reduction in expense (Ln. 13 @ 55.7%)		446,565	185,516	632,081
17	Total reduction (Lns. 12, 14 & 16)		816,998	339,375	1,156,373
18	Company's adjustment				
19	Subleasing revenue	Pg. 227, 2nd. Para.	179,654		179,654
20	Operating exp. to Northern	Pg. 227, 2nd. Para.	<u>162,772</u>	<u>79,855</u>	<u>242,627</u>
21	Department's corrected adj. (Ln. 17 - Ln. 19 & 20)		<u>474,572</u>	<u>259,520</u>	<u>734,092</u>
22	Overstated amount (Ln. 10 - Ln. 21)		<u>15,486</u>	<u>6,431</u>	<u>21,917</u>

# CERTIFICATION

I certify that I served today a copy of the attached Motion for Reconsideration of Bay State Gas Company by hand delivery, first class mail postage prepaid or electronically on the Department of Telecommunications and Energy and all parties on the service list on file with the Secretary of the Department of Telecommunications and Energy for this proceeding.

Dated at Boston, Massachusetts this 13<sup>th</sup> day of December, 2005

  
Robert L. Dewees, Jr.